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PROF. MALKIEL AND THE NEW INVESTMENT PARADIGM: RAINING ON THE PARADE?

"I conclude that considerable skepticism is warranted with respect to active portfolio management strategies, as well as strategies designed to alter asset allocations over time on the basis of relative valuations…."

Burton G. Malkiel
Journal of Portfolio Management
30th Anniversary Issue, September 2004

Raining on the 'New Paradigm' Parade?

Two key elements of the new fund management paradigm that we have been advocating are (1) active management and (2) dynamic asset allocation. So when Princeton's eminent Prof. Burton Malkiel publicly expresses "considerable skepticism" that these two strategies can be employed successfully, there are two choices. You either ignore Malkiel's skepticism in the hope that no-one will notice, or you address it. Perhaps foolishly, we pursue the second course in this *Letter*.

First, a word on our approach. Last month's *Letter* featured Prof. Andrew Lo's Adaptive Markets Hypothesis (AMH). Lo was careful to position the AMH not as an alternative to the Efficient Markets Hypothesis (EMH), but as an adaptation of it with different investor behavior assumptions. We intend to be equally careful here in squaring our views with those Malkiel expressed in his *JPM* article last fall.

Is there a way for both of us to be right? We think there is, and explain why in the pages which follow.